

The beginning of banking in Minnesota /

THE BEGINNING OF BANKING IN MINNESOTA.*

* Read at the monthly meeting of the Executive Council, May 11, 1908.

BY ADOLPH O. ELIASON, PH. D.

Before the days of white settlement in the North west, the territory now embraced within the boundaries of Minnesota was inhabited by Indians. Agriculture, trade and commerce, even in their most rudimentary forms, could scarcely be said to exist. Hunting, trapping and finishing were the chief occupations of the men; and the women prepared the food, made the moccasins and clothing, care for the children, and in general performed the work and drudgery about the camp or village.

The first white men to enter the territory were exploring traders, closely followed by missionaries and by regular traders seeking the furs which the Indians procured with such little effort.

There was no metallic money in circulation in the early fur trade. Trade was carried on by barter. Furs were exchanged by the Indians for blankets, knives, powder, firearms, rum, and other articles brought in by the traders. Henry R. Schoolcraft, the noted traveler and writer, says, in his "Narrative of an Expedition through the Upper Mississippi to Itasca Lake in 1832," that the standard of value and computation in the fur trade was a prime beaver, called "plus" by the French. Other writers bear out this statement, and it is established beyond a doubt that, from the beginnings of trade in this territory, the unit of trade was the beaver skin, allowed at one and one-half pounds per skin. About 1820 a prime beaver skin was estimated as worth \$2 a pound, a large prime beaver being worth \$4.† Schoolcraft, in the narrative referred to, states that a prime beaver or plus was worth one bear, one otter,

or three martens, while a keg of rum was equivalent to thirty plus. A little later the muskrat skin was the unit of trade in this territory.

† Wisconsin Historical Society Collections, Vol. VII. p. 205.

672

The fur trade was the forerunner of civilization throughout this region, as it has been in nearly all parts of the North American continent. Its attractive profits tempted exploration, established settlements and posts for trading purposes, opened regular avenues of trade, and prepared the way for the influx of agricultural settlers, merchants, and those bent on other lines of trade and industry. The history of the early fur trade in Minnesota becomes, then, of first importance in the study of early business conditions; and some little attention to these conditions is absolutely necessary in order to determine just when and how the needed banking facilities were supplied before conditions demanded the establishment of exclusively banking institutions.

The fur trade in our territory was for many years in the hands of the French, but after the middle of the eighteenth century the English gradually began to secure the trade of the Northwest. After the treaty of Paris in 1763, the English came into possession of all the posts, and for a brief period the fur trade was carried on exclusively by the Hudson Bay Company. About 1766 private traders began to encroach, and in 1783 the strongest of these traders united their stocks and formed the Northwest Company, with headquarters at Montreal, a strong rivalry immediately springing up between the two companies. In 1798 the Northwest Company alone had over forty clerks, fifty interpreters, and six hundred canoemen in Minnesota. In 1809 the American Fur Company was organized by John Jacob Astor, but it did not begin business until the close of the war of 1812. A few years later the Indian trade of the territory passed into the hands of the America Company, for the Northwest Company was obliged to dispose of its posts south of the Canadian line, on account of an act passed by Congress in 1816 excluding foreigners from the Indian trade.

Library of Congress

With the advent of the American Company and the protection of the frontier by the establishment in 1819 of the military post at Fort Snelling, the Indian trade in our territory received a great impetus, and although it was several years before settlers actually began to arrive, the territory was being exploited by explorers and traders and the eyes of future settlers turned in this direction. Referring to the year 1832, Neill wrote in his *History of Minnesota* 673 (page 415): "There were no white families in the country. The entire population, besides the soldiers of the fort, were Indian traders." He undoubtedly left out of account the few Swiss refugees who were at this time squatting upon the Fort Snelling Reservation. By 1833, traders were established in posts at Mendota, Olive Grove at the mouth of the St. Croix, Traverse des Sioux, Little Rapids of the Minnesota river, Lac qui Parle, and Lake Traverse; and as traders went out from these posts in every direction, it may be seen that trade with the Indians was carried on over a large part of our territory.

Up to 1837, none of the land in Minnesota was open to settlement. All the land belonged to the Indians, with the exception of the military reservation. Beginning with 1837, treaties were made with the Indians by which their rights of occupancy between the Mississippi and St. Croix as far north as the Crow Wing were ceded to the United States, thus making settlement possible. Gradually settlers began to arrive, but up to 1849 comparatively little headway had been made in this direction, considering the vastness of the territory. Mr. A. L. Larpenteur, who was afterward one of the first merchants in St. Paul, arrived in the territory in September, 1843. "At that time," he says in his *Recollections*, "the white population...in the vast territory that now includes the great state of Minnesota, the two Dakotas, parts of Wisconsin and Iowa, and all the country across the Missouri river to the Pacific coast, did not exceed three hundred." At the time of the first official census, taken in 1849, when the territorial organization was effected, there were less than 5,000 inhabitants within the area now included in Minnesota.

John Jacob Astor was an enterprising and astute trader. He sent to the territory a number of wide awake young men from the East. Among them were Ramsay Crooks, who was

Library of Congress

his first agent and afterward was president of the company, and Charles H. Oakes and Charles W. W. Borup, who have the distinction of starting the first banking-house within our boundaries.

In 1834, H. H. Sibley, who later was to play such an important part in our history, came to Minnesota, having formed, with Colonel Dousman and Joseph Rolette, Sr., a copartnership with the American Fur Company. Sibley was placed in control of the 674 trade throughout this vast region and had his headquarters at St. Peter's, now the village of Mendota. He inspected the posts, supervised the operations of the traders, clerks, and voyageurs, and dictated the policy of the company with regard to the traffic with the Indians. Sibley's day books, his letter books showing copies of all his letters, and several files of letters received by him while in the fur trade, are to be found in the Library of this Society. They furnish a vast fund of information as to the history of the fur trade and the conditions of the Territory in general, during a period upon which it is extremely difficult to find any definite and reliable information.

In order that we may more clearly comprehend the earliest stages of banking development in Minnesota, let us give a moment's attention to the beginnings of banking in New England. A glance at the early conditions in the east will show a remarkable similarity with the conditions in this territory.

In studying the rise of banking institutions in the United States, we find that the business and industries of the colonies were carried on for nearly two centuries without the assistance of a single local commercial bank. The peculiar conditions of colonial trade and industry made the rise of local banking institutions unnecessary.* There were no manufactures requiring extensive capital and banking facilities; the financial aid necessary to carry on operations under the agricultural and domestic systems was supplied by individuals in the colonies; the retail trade and the coasting and shipping industries were conducted on English capital; the banking for the merchants in the colonies was done in England; and these merchants, with the aid of their own capital and their banking

Library of Congress

connections in England, together with their remarkable credit arrangements with the English merchants, were able to give to individuals and small traders in the colonies the credit accommodations and limited banking services which they required.

* See "The Rise of Commercial Banking Institutions in the United States," by A. O. Eliason.

So long as these conditions continued in the colonies, local banking institutions were not needed and consequently did not arise; but with the gradual disruption of the domestic system, and with the development of manufactures and other industries requiring larger capital and more extensive accommodations and services such as are usually supplied by banks,—together with the severance of the relations with the mother country,—local banking institutions became necessary, and in compliance with this demand the first commercial bank was established in Philadelphia in 1781.

Conditions were, in many respects, similar in the early days of this territory. Before the advent of the white man, the necessity of banking institutions was obviously lacking. With the growth of the fur trade, the establishment of trading posts, and the subsequent influx of white settlers, the needs for banking facilities gradually arose.

Up to the beginnings of the nineteenth century, the development of the territory along these lines had not proceeded far enough to demand any banking facilities, but with the rise of the American Fur Company an active movement of exploration and exploitation began and within a short time a great many trading posts were established. Missionaries began to work among the Indians, and white settlers began to come.

These travelers and the traders, missionaries, and other settlers did, of necessity, occasionally require some services usually performed by banks. Some needed funds sent them from the east, others wished to send home their surplus earnings. Some needed financial assistance from time to time; others had, at times, a small surplus needing some safe place of deposit. These and many other services were required by the earliest white settlers. As there were no local banks, the interesting question arises, How were these

Library of Congress

needed banking facilities supplied? The answer is to be found only through a close study of the daily business operations of the inhabitants.

The Fur Company was the moneyed establishment of the early days, and, if any fiscal or other exceptional service was required, the Fur Company was looked to for its accomplishment. The company was the fiscal agent for the early explorers and missionaries, for the Indians, and for the people of the region in general. It not only kept accounts for goods sold them and for furs received in return, but it performed many purely banking services, such as making loans, cashing drafts on New York, Quebec, St. Louis, 676 and other places, and selling exchange on the Company offices at St. Louis, New York, and other points. Sometimes these advances, drafts, and other credits, were carried on the books of the company in a running account, and orders on the same were honored when presented.

Many interesting examples in substantiation of these statements are to be found in Sibley's day book, and in letters written to him and by him while in charge of the Company's office at St. Peter's. On July 9th, 1838, for example, the J. N. Nicollet expedition was charged on Sibley's day book to "paid order, Moyese Arcand, \$25.00." On September 17th, 1838, the Western Outfit was charged to draft of J. N. Nicollet on P. Chouteau & Co., of St. Louis, account of expedition under his charge, drawn in favor of H. H. Sibley, agent of the American Fur Company, for \$1,89933. Nicollet evidently made a draft on P. Chouteau & Co., which Sibley cashed or credited; and Nicollet undoubtedly had a running account with the Fur Company, drawing on the same for his expenditures and other purposes, and replenishing it when low.

Other running accounts are clearly indicated by other entries. On July 28th, 1838, N. W. Kittson was credited with a draft for \$130 drawn by H. H. Mooers on H. L. Dousman. On August 23d, 1838, Huggins & Williamson were credited with \$20.00 cash received from Mr. Nicollet; and on the same date the Pokegama Mission was credited by F. Ayers, a

Library of Congress

missionary in the Snake river country, with a draft for \$400 drawn on New York, ten days, in favor of G. M. Tracey.

Turning to Sibley's letter copy books and letter files, we find evidences of similar transactions. On October 24th, 1838, Joseph Renville, Sr., at Lac qui Parle, wrote to Sibley, requesting him to let Dr. Williamson have \$100 and charge to his account. In a letter to Sibley, on November 25th, 1838, from Lac qui Parle, Dr. Williamson says, "I send you above a draft on Mr. Tracey of New York for \$112.14. This, with the \$25.00 which you told me you intended contributing to the Board,...if I remember correctly, covers all the orders I have drawn on you."

Another letter written by H. L. Dousman from Prairie du Chien on October 13th, 1840, to William H. Forbes, an employee of the Fur Company in Sibley's office, says, "I send herewith my 677 order in your favor on the postmasters at Fort Snelling and Lake St. Croix for the quarter ending September 30th last," and gives orders to collect and credit. These letters all show that the company carried on its books running accounts, not only with people in this region, but also with others living in other parts of the country who had business to transact in this locality; and thus, by providing the necessary machinery for the transfer of funds and credits in this manner, it performed a necessary banking function.

By examining further into the correspondence of the American Fur Company, we discover that this was not the only banking service rendered the community, but that in addition to carrying running accounts on its books, sustained by credits in a manner not essentially differing from modern banking practice, the company also made loans and advances the same as any commercial bank. In a letter dated August 11th, 1849, to H. L. Moss, Esq., at Still-water, Sibley says, "I enclose you my own acceptance at three days for one hundred dollars, being the amount you wish to borrow from me and which I advance you with much pleasure. The draft may be cashed by any of the banks or by R. H. Campbell, Esq., in Galena." Another letter, written by Sibley to R. H. Campbell, of Galena, September 27th, 1849, says, "I have advanced Doctor Norwood of the Geological Corps the sum of \$390,

Library of Congress

which he expects to get from Mr. Carter at your place, in which case I have requested him to turn the amount over to you, taking your receipt therefor." On July 26th, 1849, Sibley wrote to Mr. James Ryan, of Galena, that he would remit to him the sum of \$200 at the request of the Rev. Mr. Belcourt; and in a letter to Mr. Borup on September 28th, 1849, he says: "A certain person drew from Galena for \$1,800 or \$1,900, saying in his letter of advice, 'I will not draw again,' and making many brilliant promises of the large remittances to be made from contracts with the government." All these instances clearly show that the Fur Company was in the habit of making loans, as well as of carrying running accounts fed from outside sources.

Not only did the Fur Company obviate the necessity of local banking institutions by transferring funds through exchange transactions, by carrying running accounts on the books of the company 678 against which orders could be drawn, and by extending financial accommodations through loans, but it also acted as a general fiscal or financial agent, both for the local inhabitants and for those in the East and other parts of the country who had business to transact in this region.

On November 3rd, 1841, for example, General Dodge wrote to Sibley sending him a draft for \$10,000 for "purchases for the Sioux Treaty," presumably for presents to the Indians to get the treaty signed, and on January 14th, 1849, Rev. G. A. Belcourt, missionary at Pembina, wrote to Sibley: "I want to draw money from savings bank at Quebec, and I know of no surer way of getting it than by asking you." Another letter written to Sibley on October 28th, 1850, from St. Louis by Kenneth McKenzie, asks him to attend to his claims when the treaty is made with the Sioux in 1851, his claims amounting to \$57,175.00. These letters all show that persons in other sections of the country used the American Fur Company as a financial agent in this region.

In performing numerous functions of a bank, the local Fur Company worked in connection with and was assisted by the home establishment in New York. Various letters to Sibley

Library of Congress

from New York written by Ramsay Crooks, the president of the company, show the connection with the home office.

A letter dated April 27th, 1836, gives notice of the payment of a draft for \$112.14, drawn by Dr. Williamson on G. M. Tracey, which was evidently credited on the books at the New York office. Another letter of March 29th, 1836, says, "Mr. Norman W. Kittson has left in our hands \$500, which is subject to his order, and in case he wants funds in your country we hope it will be convenient for you to accommodate him to the extent of his said deposit." In the same letter he says, "Our friends in Montreal are anxious that we collect from your Mr. Forbes the amount of his note to John White, say \$80.00, which we hope you will see he pays with interest;" and in a postscript he says, "General C.'s acceptance of Mr. Kittson's draft on him for \$828.00, one of those you gave me last winter, was protested today for want of funds." On May 26th, 1837, Crooks notified Sibley of the payment of a certain draft for \$1,000, and admonished him to be careful whose drafts he takes, as "but few of them are good." On October 18th, 1836, Sibley 679 is sent a note for collection, with instructions to place to the credit of St. Mary's Outfit when collected; and on December 20th, 1836, he is notified of the collection of two certain drafts and the credit of same to the "Western Outfit" and the "Fort Snelling Outfit," respectively, and of the payment of \$40.00 "to Samuel W. Benedict, as requested."

There was no marked influx of settlers into this region until after the organization of Minnesota as a territory in 1849. During the pre-territorial period the few scattered white inhabitants managed very well without the assistance of banking institutions, for the simple reason, as has been pointed out, that they did not need them, their few needs in this direction being cared for by the Fur Company without great inconvenience.

When the act was passed organizing Minnesota Territory, the region was "little more than a wilderness." The whole country west of the Mississippi river, from the Iowa line to Lake Itasca, was still unceded by the Indians. St. Paul was the only settlement in the territory that could lay claims to being even a small village, so small in fact that its population did

Library of Congress

not exceed two hundred and fifty or three hundred inhabitants, even after the sudden stimulus of the rumor that it was to become the capital of the new territory. It was “just emerging from a collection of Indian whiskey shops and birch-roofed cabins of half-breed voyageurs,” with here and there a frame tenement erected and some warehouses in the process of construction.*

* Neill, History of Minnesota, p. 494.

The organization of the territory was followed by an influx of settlers, and the population steadily increased. At the first census, taken in the early summer of 1849, St. Paul had a population of 840, and Stillwater, the only other settlement of any size within the present boundaries of Minnesota, numbered 609 inhabitants. St. Paul, being the capital and at the head of navigation, continued for some time to attract nearly all the immigration, and by the latter part of 1853 its population had increased to about 4,700.†

† The Pioneer, November 17th, 1853.

The first newspaper to be established in Minnesota was the Pioneer, whose first issue appeared on the 28th of April, 1849, and it has continued uninterruptedly to this day. About the same time 680 the Register appeared, closely followed by the Minnesota Chronicle; and after a few weeks' existence these papers were discontinued and gave way to the “Chronicle and Register.” From the files of these papers is to be gleaned much valuable information upon our subject.

The scarcity of currency, which was keenly felt by the earliest settlers, fanned the zeal of those who wished to establish banks for the issue of paper money; but the experience of our public men with “wildcat” and other irresponsible paper banking schemes in other states, together with the able and vigorous opposition of the local newspapers, prevented legislative sanction of any such movement. The few unauthorized attempts to establish a paper bank were met by such determined and concerted action, on the part of the sound

Library of Congress

money men, that no bank for the issue of paper money was ever successfully established in the territory.

The earliest paper banking project in Minnesota, which I have been able to discover, was the "Bank of Saint Croix." The first reference to this project in the Pioneer appeared in an editorial on November 15th, 1849, which stated that sometime in September a stranger calling himself Isaac Young came to St. Paul and succeeded in getting a Mr. Sawyer to sign a large number of pieces of paper on which were engraved the words, "Bank of Saint Croix, Saint Paul, Minnesota," Mr. Sawyer being informed by Young that the pieces of paper which he signed as cashier would be promptly redeemed when issued. Young evidently left St. Paul with the notes and attempted to get them into circulation, for the Pioneer states that notes of the "Bank of Saint Croix" were quoted in the eastern bank note lists at one per cent discount; and it was the opinion of the editor that the quotations were furnished by "some accomplice in the fraud, living in Wall street, New York city."

How extensively these notes got into circulation cannot be determined, but the project created considerable comment and was repeatedly mentioned in the St. Paul newspapers up to the middle of February, 1850. On December 12th, 1849, the Pioneer notified the public abroad that there was no such bank in Minnesota, and added that "if they ever hear of the existence of any banking institution in this Territory, they may set it down as a fraudulent, 681 unlicensed concern;" and so much prominence was given in subsequent issues to the exposure of this fraud that, in all probability, but few of the notes got into circulation. The Pioneer on January 9th, 1850, claimed that a large quantity of the notes were issued and taken to Galena, St. Louis, and other places; and that, when navigation was closed and winter should nearly cut off communication with St. Louis, "it was designed to flood the whole lower country with this spurious stuff." St. Louis and Galena, however, discovered the fraud early enough to prevent this. In the latter part of December, the St. Louis Union cautioned all persons against taking the notes, designating them as a "bare-faced fraud," and stated that a gentleman from St. Paul, Minnesota Territory, had informed them that "there is no Bank of Saint Croix at that place, and there is not a bank

Library of Congress

in the Territory, although paper bearing that face is quoted in Presbury & Co.'s Counterfeit Detector at 1 per cent discount." This article from the St. Louis Union was quoted by the Galena Gazette, and was copied by the St. Paul Pioneer, January 2d, 1850.

In the January number of their Counterfeit Detector, Presbury & Co. stated that they had stricken the Bank of Saint Croix from the Detector, and gave the following unique explanation:

A few days previous to the issuing of our October number, Mr. Daniels of this city introduced to us a gentleman by the name of Young, who informed us that he, with some other capitalists, were about to establish a bank at St. Paul, and showed us two notes, one of the denomination of one dollar and one for two dollars. He also stated that but few had been signed, and that no more would be issued until the charter had been sanctioned by the authority of law. He left those two notes with us and money sufficient to redeem all that was issued. Upon this representation, we mentioned the money in the Detector, giving holders of the notes information when they would be redeemed. Since the mention of the paper above alluded to, we have been advised that it is improbable that the Legislature of the Territory will grant any such charter.*

* Quoted in the Pioneer, January 9th, 1850, from the Missouri Republican.

These exposures of the Bank of Saint Croix project evidently succeeded in killing it, for no further mention is made of the bank in the Pioneer, except in a communication on February 13th, 1850, from Henry Jackson, a member of the Territorial Legislature, 682 disclaiming the charge made against him that he had attempted to get a Bank of Saint Croix bill through the Legislature.

Those coming into the Territory did, of course, bring in some money, but the chief source of the money supply was the Indian annuities and other government payments. Money then, as now, was liquid enough in character so that even though large amounts came into the Territory from time to time, there was also a continual outflow. Consequently, during

Library of Congress

the early days, money was always scarce, and every little while some scheme was put forth to supply the monetary needs.

In an article on "Banks and Banking," in the Chronicle of May 25th, 1850, the needs of a paper currency were set forth, and the establishment of a bank of issue was proposed. Nothing, however, resulted from this suggestion, as it immediately met with strong opposition. A communication in the Pioneer on June 6th, in reply to the proposal in the Chronicle, warned the people against paper currency of whatever kind, and recalled to their minds the disaster following the crash in 1837. Active opposition such as this, on the part of the hard money men in the Territory, prevented the establishment at this time of a paper bank as suggested.

The so-called Merchants' and Mechanics' Bank, appearing at St. Anthony sometime in June, 1853, was another attempt at paper banking, but it appears that it was not successful in getting its notes into circulation. The Pioneer of July 14th, 1853, gives the only information which I have been able to discover concerning this project. The article, which is headed "St. Anthony Bank," begins with the statement that no mention has been made of this project because, "believing that there was not the most remote possibility of the success of any project of Israel Smith or any other person to flood our Territory with irresponsible paper currency, we did not intend to revert to the subject of the Merchants' and Mechanics' Bank at St. Anthony, until a further demonstration should be made to impose the paper of that concern upon our people;" and the article goes on to state that information had been received from Galena that Israel Smith was there spreading the report that his bank was established at St. Anthony under a permit from Mr. Gorman, governor of the Territory. "The governor," 683 continues the writer, "is not authorized or empowered to give a permit for the establishment of any institution of the kind, and we are authorized to say that Governor Gorman never had any conversation with Mr. Israel Smith on that or any other subject."

The last paper banking project in the Territory, to which I shall call attention, was the “Central American Bank,” the first advertisement of which was issued in the Pioneer on July 21st, 1853, in the following harmless appearing form: “Central American Bank, Richards, Clarke & Co., Bankers and Dealers in Exchange. Collections made throughout the Territory, and remitted for at current rates of exchange.” An editorial in the same issue states that, “as a mania for wildcat banking appears to have seized hold of a portion of our community,” it would be well to elect sound money men to the coming Legislature, so that a stringent law may be passed for its suppression. “Since the above was in type,” the editorial continues, “we have been shown a pictured ‘promise to pay,’ issued by what is called the Central American Bank of St. Paul, a card for which institution will be found in another column. We are opposed to the whole banking system, whether chartered or wildcat, from principle; and we feel it a duty we owe the community to warn our readers in time against receiving ‘promises to pay’ as money. The currency paid by the Government to the Territory and disbursed to its citizens by the proper officers, is the only currency recognized by the Constitution.”

The “Central American Bank” project evidently stirred the people to instant action, for on July 23rd a large meeting of the business men of St. Paul was held to oppose the “institution” and to organize an effective warfare against that and all similar projects. After a thorough discussion of the subject, in which remarks were made by George W. Farrington, Aaron Goodrich, J. C. Dow, R. R. Nelson, M. S. Wilkinson, C. J. Henniss, and others, names undoubtedly familiar to many here tonight, resolutions were adopted, clearly and unmistakably branding the Central American Bank with the public disapproval and showing that the St. Paul business men were unalterably opposed to paper money schemes. The resolutions were as follows:*

* See the Pioneer, July 28th, 1853.

Library of Congress

Whereas, A recent attempt has been made to circulate as money an issue of a so-called Central American Bank of this city; and

Whereas, Such attempt is antagonistical to the best interests of this Territory, and particularly to the interests of the business men of this city; therefore be it

Resolved, That we will oppose under all circumstances, now and hereafter, this and all similar attempts to impose upon us an illegitimate and irresponsible paper currency.

Resolved, That the course pursued by the city press, in denouncing these “wild-cat” issues, meets with our warm approbation.

Resolved, That the proceedings of this meeting be published in all the papers in this Territory.

The Central American Bank did not long survive this opposition. After October 6th its business card ceased to appear in the Pioneer. The attempts to gain a circulation for its notes were undoubtedly completely frustrated, and the institution did not even continue as a discount and collection office, for it fails to appear in the list of these establishments given in the Pioneer on November 17th, 1853, and is not mentioned in any subsequent issues of the Territorial papers.

We notice from the accounts of these early banking projects that to the settlers of the region at that time the word “banking” meant only the issue of bank notes. Other functions of a bank, such as deposit and discount, do not seem to have been considered. It is an interesting coincidence that here, as in the early days of New England, the chief and, we may truthfully say, the only function of a bank was deemed to be the issue of paper money. The newspapers in the Territory, and especially the Pioneer, continually waged war against “banking,” but always with the idea that by banking was meant the issue of paper money. On November 17th, 1853, for example, the Pioneer stated that there was

Library of Congress

no bank in the Territory, and in the same article gave the number of deposit and discount offices in operation in St. Paul.

Nearly all the messages of the Territorial governors advise against the establishment of banks, having in mind the issue function only. In his message of January, 1852, Governor Ramsey said that he was "satisfied that in staid and settled communities a well regulated paper currency, circulating on an adequate basis, is a decided public advantage, but the experience of the territories of Wisconsin and Iowa should admonish us that, in the peculiar 685 condition of society in an early stage of political existence, banking is extremely hazardous, and that the distrust, agitation and alarm arising from over-issues of paper and improper use of banking facilities, are more difficult to overcome, and more dangerous in their tendencies if not overcome, than the actual inconveniences and losses usually incident to an insufficient currency." He said further that he was not aware of any disposition in the community to apply to the Legislature for the incorporation of a bank, and advised that until conditions materially changed it should be the stated purpose with the Legislature to do nothing in relation to the charter of banks.

Governor Gorman, in his message of January, 1854, declared definitely that "no law creating a bank within this Territory for circulating a paper currency" could ever receive his official sanction; and in his message of January, 1855, he entered into the question more at length, stating that the Legislature "may be invoked to charter corporations for banking purposes under the specious pretense of keeping out the currency of other states," and he followed with an argument showing the fallacy of such a pretense.

The one important fact to bear in mind in connection with this discussion is that, owing to the sound money views of our newspapers, business men and public officials, the Territory was saved from the baneful experience of paper banking.

Let us now turn to the third and last phase of the subject to be considered in this paper, the rise in the Territory of the first real banks within the modern meaning of the term,

Library of Congress

establishments doing a commercial banking business by exercising the functions of deposit and discount.

In St. Paul, business had become sufficiently active by 1853 to necessitate the establishment of a commercial bank. As early as November 7th, 1850, a discount office was proposed in the columns of the Pioneer in order to “alleviate the distressing financial paroxysms” which convulsed business whenever there was any delay in payments from the Government; but nothing resulted from the proposal until 1853, when Borup & Oakes opened a bank, closely followed by the banking establishments of Charles H. Parker, Brewster & Co., and others.

686

By this time, St. Paul had grown from a small village of about three hundred inhabitants at the time of the formation of the Territory, to a thriving, busy town of nearly 5,000 inhabitants, with an assessed valuation of over \$723,000, as compared with \$85,000 in 1849, and which rose to over a million and a quarter in 1854. With this growth of wealth and population, the limited banking facilities provided by the Fur Company were clearly inadequate, and separate banking institutions became a necessity. By November 17th, 1853, it is certain that the three banking offices of Borup & Oakes, Charles H. Parker, and Brewster & Co., were in operation in St. Paul, for they were listed in the Pioneer of that date under the heading of “Bankers and Exchange Brokers.” During the next three years the number of banks in St. Paul increased to about a dozen. The St. Paul directory for 1856 gives the names of twelve banking houses, and the first issue of the Pioneer in 1857 gives the advertisements of ten St. Paul banks.

These banks were, in fact, actual commercial banks, for although there was a great scarcity of money in the community, and at first almost no surplus funds, while interest rates were so high as to be almost prohibitive, the banks did to a greater or less extent receive deposits and carry on discounting operations.

Library of Congress

The advertisements of the banks, and various items concerning them in the local press, prove the truth of these statements beyond a question of doubt. For example, an editorial in the Pioneer on November 17th, 1853, stated that Borup & Oakes carried on a large deposit and discount business on a safe basis. Charles H. Parker began his advertisements in the Pioneer on October 6th, 1853, stating that he conducted a banking, exchange and deposit office, and that Erie and Kalamazoo Railroad money would be received on deposit or in exchange at 1 per cent discount. Beginning with December 15th, 1853, Brewster & Co. advertised a general banking and exchange business. As early as the first part of 1856, I find that Mackubin & Edgerton and other St. Paul bankers began to advertise the interest paid on deposits and the rate of discount on commercial paper. The wealth and business activity of the community had undoubtedly, by that time, grown sufficiently to create keen competition among the increasing number of banks.

Although St. Paul continued for some time to be the largest and wealthiest settlement in the Territory, a study of the beginning of Minnesota banking would be incomplete without a consideration of the conditions in at least one or two of the settlements next in importance.

The rival of St. Paul, in the early territorial days, was St. Anthony, a thriving lumber manufacturing village about ten miles up the river. Its first newspaper, the St. Anthony Express, appeared in May, 1851, which was followed a little later by the Northwestern Democrat. In an editorial in the Pioneer on November 24th, 1853, it was stated that there was at that time no banking or discount office at St. Anthony. On August 12th, 1854, the Northwestern Democrat published the business card of "R. Martin, Banker and Broker, Post Office Building, St. Anthony," who has undoubtedly the distinction of being the first banker in the community; and in the same paper, on October 7th, 1854, there appeared the advertisement of "C. L. Chase & Co., Bankers and Exchange Brokers and Dealers in Real Estate," who called attention to the fact that interest was allowed on deposits. In the same year, Tracy & Farnham established a banking and land office. It appears that C. L. Chase & Co. did not long continue the business, for in a list of the St. Anthony

Library of Congress

business houses appearing in the Northwestern Democrat on November 10th, 1855, R. Martin and Tracy & Farnham are the only names given under the heading of "Banking Offices." In January, 1856, the banking house and collection agency of George H. Day was established, and we are told in the Northwestern Democrat on April 5th of the same year that this bank had to pay from one to two per cent per month on deposits. Up to the time of the financial crash in 1857, several other banks were opened at St. Anthony, among which were the office of Orrin Curtis, D. B. Dorman, and Graves, Town & Co.*

* See Atwater, History of Minneapolis, Part I, page 435.

Turning now to Minneapolis, we find the interesting information in the Pioneer on November 24th, 1853, that a village by that name "had recently sprung into existence." The growth of Minneapolis did not really begin, however, until after the removal of 688 the military reservation in 1855, after which the little village across the river from St. Anthony soon outstripped its neighbor, both in population and business activity. In a short time Minneapolis and St. Anthony became in reality one city, although it was not until 1872 that the two were incorporated together.

For information about the beginnings of banking in Minneapolis, we are not obliged to depend solely upon the local newspapers, nor even upon the memory of those respected pioneers who are still living, but who were not associated with these early banks in any other way than as depositors and borrowers. Three banking offices were opened in Minneapolis at about the same time by Snyder & McFarlane, Curtis H. Pettit, and Beede & Mendenhall; and I have been fortunate in being able to get much information from the three gentlemen who were at the head of these first banks.

Although it may be said that these three banks were opened at about the same time, Snyder & McFarlane were actually the first to begin. An editorial in the Minnesota Democrat on August 29th, 1857, states that they opened their bank on October 9th, 1855, and that Mr. Pettit's bank was established on November 1st following. The same

Library of Congress

editorial gives August 1st, 1856, as the date when Beede & Mendenhall began business. My interviews with these early bankers corroborate these statements as to the order of establishment, although I was informed that no deposits were received until some time in the winter of 1855–56.

Snyder & McFarlane began business merely as a real estate firm in the office of Orrin Curtis in St. Anthony in May, 1855. In the fall of 1855 they built an office in Minneapolis on Hennepin Avenue, across from the site of the Union Station where they soon began to receive deposits, deal in eastern exchange, and discount short time notes, in addition to their real estate and mortgage loan business. In 1856, they were joined by a Mr. Cook, and from that time until the latter part of 1858 they continued the business of real estate and banking under the name of Snyder, McFarlane & Cook.

Curtis H. Pettit came to Minnesota on the 22nd day of October, 1855, and soon afterward opened his bank of deposit and discount in Minneapolis on Bridge Square, continuing until 1860, when he went into the hardware business.

689

Beede & Mendenhall, beginning in the summer of 1856, continued business until the general breakdown following the financial panic of 1857, and were succeeded in 1862 by the State Bank of Minnesota, with R. J. Mendenhall as president and R. J. Baldwin as cashier.

Following the establishment of these first three banks and up to the time of the panic of 1857, other banks were opened in Minneapolis, among which were the offices of Heath & Partridge, S. W. Phinney, and David C. Groh. These first real banks of deposit and discount in St. Paul, St. Anthony, and Minneapolis, carried on business in very much the same way. In St. Paul and St. Anthony, banking was conducted on a larger scale than in Minneapolis, for the population was much larger during these first years and business in consequence was more active. In these places there was keen competition among the

Library of Congress

banks for deposits, and, as has been noted, interest was paid on deposits, and in some instances as high as two per cent per month. In Minneapolis, on the other hand, as I was informed by Mr. Snyder, no interest was paid on deposits, and, although the banks did receive deposits, the volume received during the period before the crisis was so small that it amounted to very little.

At all these banks, the operations of discount were performed in a manner not essentially differing from present day banking except as to rates, which were often as high as 5 per cent per month, and 10 per cent per month after due. None of these banks, up to the time of the establishment of the state banking system, issued bank notes which circulated as money, although Borup & Oakes in St. Paul did, for a time, issue certificates which they attempted to get into circulation, but which met with such opposition on the part of the other bankers and the public in general that a special law was passed by the Legislature prohibiting them.

The state of the currency was at all times bad during this early period. Minnesota was flooded with paper currency of questionable soundness, brought in from other states, necessitating the constant use of a bank-note detector. Some of our bankers, among whom were Snyder, McFarlane & Cook, and Curtis H. Pettit, put into circulation notes of eastern banks, endorsing them across the face with a guaranty of payment, and considerable amounts of this so-called "Gosport" and "Tekoma" were issued. Mr. Pettit, alone, put out over \$20,000 of these guaranteed notes, all of which he redeemed at face value.

The limits of this paper preclude considering with more detail the operations of these early bankers. The financial crash of 1857 suspended, for a time, the business of all the banks; and during the readjustment, following the crisis, the state banking system was established, ushering in a new era in our banking history.